CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the May/June 2015 series

9706 ACCOUNTING

9706/22 Paper 2 (Structured Questions – Core), maximum raw mark 90

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1 (a) Calculating opening capital

Non-current assets (38 400 – 12 600 +41 940 – 22 680) = 45 060 **(1)**
Current assets (26 610 + 33 500 + 3750 +360) = 64 220 **(1)**
Current liabilities (19 920 + 410) = 20 330 **(1)**
Bank 4110 **(1)**
Opening capital 93 060 **(1of)** **[5]**

(b) (i) Revenue $193 400 + $15 180 = $208 580 **(1)** **[1]**

(ii) Purchases $134 750 + $21 590 – $19 920 = $136 420 **(1)** **[1]**

(c) Closing inventory ($33 500 + $136 420) = $169 920**(1)OF**
– ($208 580 × 70%) = $146 006 **(1)OF**
= $23 914 **(1)OF** **[3]**

(d)

Cash account

	Dr $			Cr $	
Balance b/d	360		Cash sales banked	9 675)	
Sales	15 180	**(1)**	Drawings	4 800)	**(1)for both**
		cf			
			Balance c/d	460	
			Motor expenses (bal fig)	605	**(1)OF**
	15 540			15 540	
Balance b/d	460	**(1)**			
		cf			

Marker note:

Motor expenses must be on credit side
Balance b/d must be on debit side **[4]**

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(e)

Khalid
Income statement for the year ended 31 December 2014

		$		$
Revenue				208 580**(1)OF**
Cost of sales				
Opening inventory		33 500 **(1)OF**		
Purchases		136 420 **(1)OF**		
		169 920		
Closing inventory		(23 914)	**(1) OF**	146 006
Gross profit (**must be labeled**)				62 574**(1)OF**
Less: expenses				
Discount allowed		914 **(1)**		
Motor expenses	W1	5 495 **(1)OF**		
Property rental		22 500 **(1)**		
General expenses	W2	6 240 **(1)**		
Wages and salaries		26 150 **(1)**		
Depreciation motor vehicles	W3	8 775 **(3)**		
Depreciation fixtures and fittings	W4	2 889 **(1)**		
Loss on sale of motor vehicle	W5	800 **(2)**		73 763
Loss for the year				(11 189)

Workings

W1	Motor expenses	$4890 + $605 = $5495 **(1) OF**
W2	General expenses	$6650 – $410 = $6240 **(1)**
W3	Depreciation motor vehicles	(($38 400 + $18 300 – $16 000) = 40 700 **(1)** – ($12 600 –$7000) = $5600 **(1)**) × 25% = $8775 **(1)OF**
W4	Depreciation fixtures and fittings	($41 940 – $22 680) × 15% = $2889 **(1)**
W5	Loss on sale of motor vehicle	($16 000 – $7000) = $9 000 **(1)OF** – $8200 = $800 **(1)OF**

[16]

[Total: 30]

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2 (a)

Capital account – Kim

	$		$
Goodwill	72 000 **(1)**	Balance	592 000 **(1)**
Balance c/d	640 000	Goodwill	120 000 **(1)**
	712 000		712 000
		Balance b/d	640 000 **(1)OF**

Capital account – Chan

	$		$
Goodwill	48 000**(1)**	Bank	160 000 **(1)**
Balance c/d	463 000	Equipment	325 000 **(1)**
		Inventory	26 000 **(1)**
	511 000		511 000
		Balance b/d	463 000 **(1)OF**

+ 1 for narratives per mark scheme

[10]

Marker notes: 1. Allow columnar format.
2. Allow Goodwill: Dr Chan $48 000 (1) Cr Kim $48 000 (2)

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(b)

Kim and Chan
Statement of financial position at 1 October 2014

Assets		
Non-current assets		
Motor vehicles	100 000	
Equipment (80 + 325)	405 000	**(1)**
Fixtures and fittings	172 000	
	677 000	**(1)**
Current assets		
Inventory (105 + 26)	131 000	**(1)**
Trade receivables	343 000	**(1)**
Cash and cash equivalents (160 on it's own get **(1)**)	144 000	**(2)**
	618 000	
Total assets	1 295 000	
Capital and liabilities		
Capital – Kim	640 000	**(1)OF**
Chan	463 000	**(1)OF**
	1 103 000	
Current liabilities		
Trade payables	192 000	
Total capital and liabilities	1 295 000	

[8]

Marker notes: 1. Capital a/c balances must be split.
2. If capital accounts corrupted by profit/drawings then 1OF mark only

(c) more capital.
range of knowledge, experience, expertise
can share ideas and problems.
can share the workload/responsibilities.
can cover for each other.
can share any losses
improves decision making

[1 mark per valid point to max of 3] **[3]**

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(d) increase in credit sales/more credit customers/increase in debtors(trade receivables)
deteriorating economic situation
less efficient credit control procedures
state of aged debtors' list
past experience.

Marker note: no marks for prudence/matching/accruals

[Max 5] **[5]**

(e) $350 000 **(1)** × 2% = provision of $7000
$350 000 × 5% = provision of $17 500
Increase is $10 500. **(1)** **[2]**

(f) Decreases the profit for the year **(1)**
Decreases the trade receivables in the current assets in statement of financial position **(1)** **[2]**

Marker note: allow trade receivables, current assets or net current assets *only* for statement of financial position.

[Total: 30]

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3 (a)

	Basis	Total	Machining	Finishing	Maintenance	Canteen	
	$	$	$	$	$	$	
Power	kw hrs	32 000	16 000	8 000	5 333	2 667	**(1)**
Machine depn	Nbv	28 400	22 089	3 944	2 051	316	**(1)**
Supervision	Emp	28 000	9 333	14 000	4 667	–	**(1)**
Rent and rates	Area	26 000	10 400	12 133	2 600	867	**(1)**
Buildings insurance	Area	11 000	4 400	5 133	1 100	367	**(1)**
Light and heat	Area	9 000	3 600	4 200	900	300	**(1)**
		134 400	65 822	47 410	16 651	4 517	
Canteen			1 506	2 258	753	(4 517)	**(1) OF**
					17 404		
Maintenance			11 487	5 917	(17 404)		**(1) OF**
			78 815	55 585			
			(1)OF	**(1)OF**			

[10]

(b) Machining $78 815 / 58 000 = $1.36 **(1)OF** per machine hour **(1)OF**
Finishing $55 585 / 42 000 = $1.32 **(1)OF** per labour hour **(1)OF** **[4]**

(c) Machining: $56 120 × $1.36 = $76 323 – $82 436 = $6113 **(1)OF** under absorbed **(1)OF**
Finishing: $41 295 × $1.32 = $54 509 – $56 980 = $2471 **(1)OF** under absorbed **(1)OF** **[4]**

(d) Machining
- Factory overheads expenditure more than budget **(1)OF**
- Machine hours used less than budget **(1)OF**

Finishing
- Factory overheads expenditure more than budget **(1)OF**
- Labour hours used less than budget **(1)OF**

Marker note: If candidate calculates over absorption in (c) expenditure will be less than budget in both cases. Hours in both cases will be as per above.

[4]

(e) The total expected cost of production **(1)** must be known in advance **(1)** to enable selling prices to be calculated **(1)** and to ensure that expected overhead costs are fully recovered **(1)**. Actual figures are not available **(1)**.

[max 3]

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(f)

	$	
Direct material	9.40**)**	
Direct labour – machining	6.30**)**	
Direct labour – finishing	2.20**)**	**(1) for all**
Overheads – Machining ($1.36 × 30/60)	0.68	**(1) OF**
Overheads – Finishing ($1.32 × 20/60)	0.44	**(1) OF**
	19.02	
	× 150 units	
Total cost	2 853	
Add: mark-up	1 284	**(1) OF**
Invoice value	4 137	**(1) OF**

[5]

Alternative

	$	
Direct material	1410**)**	
Direct labour – machining	945**)**	
Direct labour – finishing	330**)**	**(1) for all**
Overheads – Machining ($1.36 × 30/60)	102	**(1) OF**
Overheads – Finishing ($1.32 × 20/60)	66	**(1) OF**
Total cost	2 853	
Add: mark-up	1 284	**(1) OF**
Invoice value	4 137	**(1) OF**

[5]

[Total: 30]

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